

IRS TAX TIP 2003-23

EARNED INCOME TAX CREDIT AVAILABLE FOR CERTAIN WORKERS

Workers earned it. Don't forget to claim it, says the Internal Revenue Service. The Earned Income Tax Credit lowered federal tax liabilities for 19 million lower-income workers last year.

Some taxpayers may be eligible to claim the EITC for the first time, especially if there were changes in the family such as a new child, divorce or decrease in earnings during the past year.

To qualify for the EITC, taxpayers must have earned income during the year. Married taxpayers who file a joint return may qualify if at least one spouse has earned income. For tax year 2002, earned income includes all taxable employee income, such as wages and tips, and net self-employment income.

All taxpayers must meet certain other rules to claim the EITC. The taxpayer:

- Must have earned income;
- Must have a valid SSN issued by the Social Security Administration (SSA);
- Cannot file as "married filing separately;"
- Generally, must be a U.S. citizen or resident alien all year;
- Cannot file Form 2555, "Foreign Earned Income," or Form 2555-EZ, "Foreign Earned Income Exclusion;"
- Cannot have investment income in excess of \$2,550; and
- Cannot be a qualifying child of another person.

To qualify for the credit, the taxpayer's earned income and adjusted gross income must be less than:

- \$33,178 (\$34,178 if married filing jointly) with more than one qualifying child,
- \$29,201 (\$30,201 if married filing jointly) with one qualifying child, or
- \$11,060 (\$12,060 if married filing jointly) without a qualifying child.

The maximum amount of the credit is:

- \$4,140 for a taxpayer with two or more qualifying children
- \$2,506 for a taxpayer with one qualifying child, or
- \$376 for a taxpayer without a qualifying child.

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To be a qualifying child, the child must meet age, relationship, and residency tests. However, a taxpayer (and the taxpayer's spouse, if filing jointly) who does not have a qualifying child must be at least 25 years of age but under age 65, not be claimed as a dependent on someone else's tax return, and have made his or her home in the United States for more than half of 2002.

For tax year 2002, there are new rules when two taxpayers have the same qualifying child. Only one taxpayer can claim the child for EITC purposes. If two or more people have the same qualifying child, they can choose which person will use the child to claim the EITC. However, if both claim the credit using the same child, the child will be treated as the qualifying child of the following person under the new tie-breaker rules:

- The parent, if one person is the child's parent;
- The person with the highest adjusted gross income, if neither person is the child's parent;
- The parent with whom the child lived the longest during the tax year, if both persons are parents of the child and they do not file a joint return together;
or
- The parent with the highest adjusted gross income, if both persons are parents of the child, they do not file a joint return together, and the child lived with each for the same length of time during the tax year.

The IRS Web site at www.irs.gov and tax instruction booklets contain more information on this credit. Publication 596, "Earned Income Credit," is available on the Web site under "Forms and Publications" or by calling 1-800-TAX FORM (1-800-829-3676).

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